Edmonton International Industries Ltd.

Annual Report
1985

Edmonton International Industries Ltd.

Corporate Information

Directors

D.W. Bennett
B.L. Lambert
G.M. Lambert
K.H. Lambert
R. Melchin
W.A. Pratt
R. Sloane

Officers

K.H. Lambert	President
B.L. Lambert	Vice President-Treasurer
R. Sloane	Vice President
G.M. Lambert	Secretary

Head Office

1650, 300 - 5 Ave. S.W.
Calgary, Alberta
T2P 3C4
Phone (403) 233-0047

Officers and Management of Odyssey Resources Group

K.H. Lambert	President-General Manager
B.L. Lambert	Vice President
L.C. Lambert	Secretary-Treasurer

Head Office

1650, 300 - 5 Ave. S.W.
Calgary, Alberta
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Phone (403) 233-0047

Officers and Management of SDS Drilling Group

K.H. Lambert	Chairman
D.W. Bennett	President-General Manager
R. Wilderman	Operations Manager
L. Zschockelt	Foreign Operations Manager
A.E. Vollendorf	Contracts Manager
J.D. Sutherland	Secretary-Treasurer

Head Office

4636 - 1st Street S.E.
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Listed

Alberta Stock Exchange

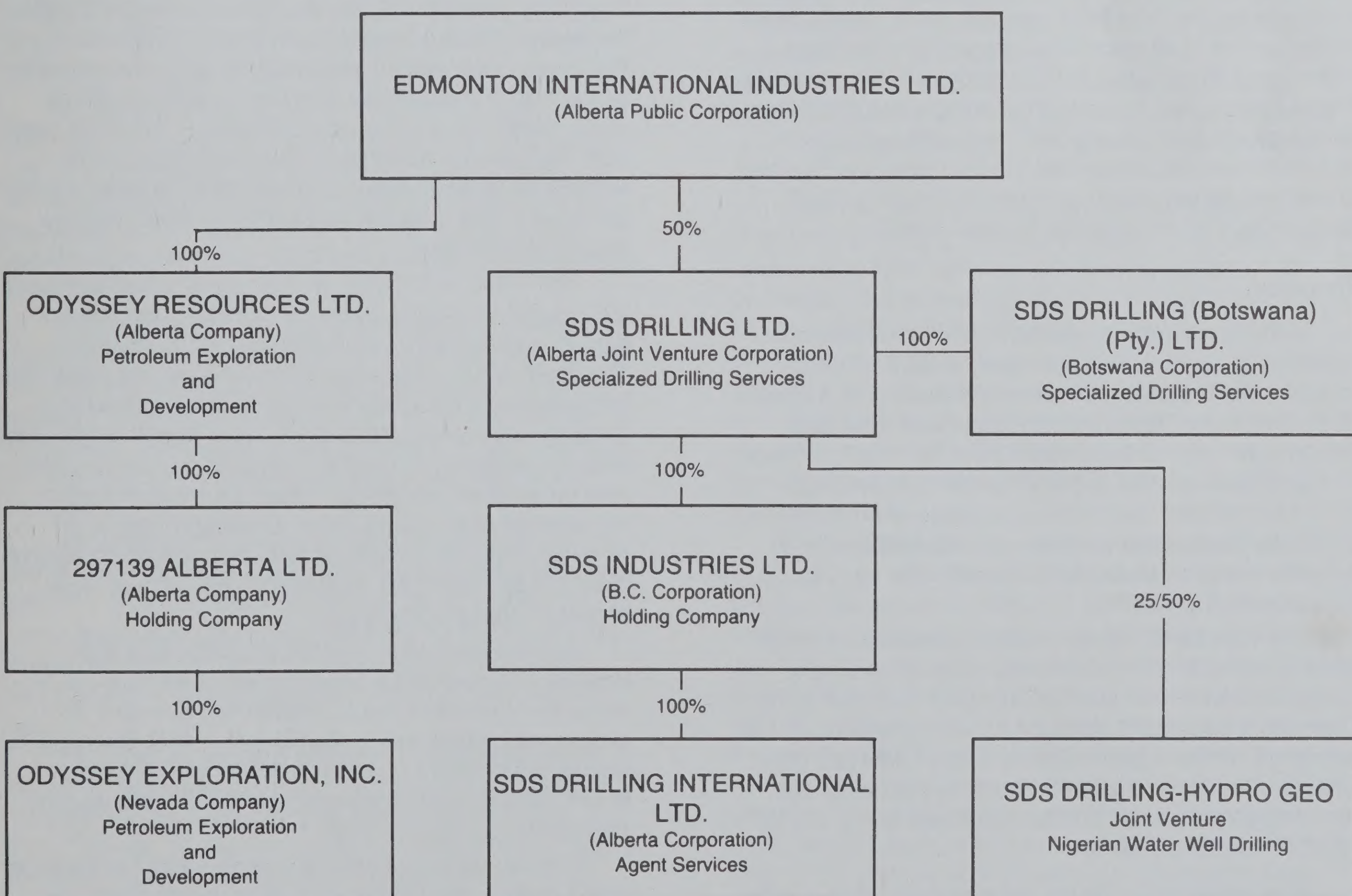
Edmonton International Industries Ltd.

Financial Highlights

	Year Ended November 30					
	1985	1984	1983	1982	1981	1980
Gross Revenues	**$ 3,713,450**	$ 3,688,926	$ 3,266,907	$10,432,298	$16,019,869	$18,818,806
Income before extraordinary items	**$ (746,332)**	$ (372,807)	$ 109,180	$ (379,848)	$ 274,775	$ 462,730
Income (loss) after extraordinary items	**$ 62,593**	$ (372,807)	$ 834,158	$ (1,944,263)	$ (1,955,822)	$ 2,352,389
Cash flow from operations	**$ (50,407)**	$ 346,053	$ 315,658	$ 12,476	$ 1,384,327	$ 1,117,676
Earnings (loss) per share*						
before extraordinary items	**$ (.25)**	$ (.14)	$ .01	$ (.13)	$ .05	$ .12
after extraordinary items	**$ (.01)**	$ (.14)	$ .21	$ (.58)	$ (.58)	$ .63
Average common shares outstanding	**3,525,000**	3,525,000	3,525,000	3,525,000	3,525,000	3,431,250
Common shares outstanding at year end	**3,525,000**	3,525,000	3,525,000	3,525,000	3,525,000	3,525,000
Working capital	**$ (1,280,015)**	$ (1,571,916)	$ (521,297)	$ (2,388,226)	$ 1,551,187	$ 3,944,523
Total Assets	**$15,559,954**	$13,882,152	$14,927,172	$14,000,531	$20,739,864	$18,642,657
Shareholders' equity	**$ 6,126,865**	$ 6,154,272	$ 6,639,579	$ 5,895,421	$ 7,929,684	$ 9,975,506

*based on average common shares outstanding fully diluted

Corporate Structure



Report to Shareholders

During the year ending November 30, 1985 the Company successfully completed its bank debt restructuring, raised $1,500,000 by means of a private placement of two year secured debentures of a subsidiary company and resolved two contingent liabilities aggregating about $2,800,000. SDS Drilling Ltd. successfully completed its first major water well drilling Joint Venture in Nigeria.

Coho Resources Limited, the shares of which represent the Company's major asset, experienced its best year ever in 1985 with allowable productive oil capacity up by over 200 percent, cash flow up by 192 percent, oil reserves up by 154 percent, average daily oil production up by 61 percent and gross revenues up by 56 percent.

Because of the precipitous decline in oil prices during the first three months of 1986, the oil industry has suffered a major setback. All companies including Coho have been required to reassess and revise their strategy and to reduce capital expenditures in order to counteract the hopefully short lived world oil pricing crisis. Stock market prices of oil companies have plummeted and investor confidence is at the lowest point in several years. These events have reduced the trading value of the Company's assets and it is only with the continued support of the Company's banker that the Company will be able to maintain its key assets and realize the very significant values that are inherent in these assets.

Financial

In the 12 months ended November 30, 1985, consolidated gross revenues increased to $3,713,450 as compared with $3,688,926 for the previous year. Consolidated loss before extraordinary items was $746,322 as compared with consolidated loss of $372,807 last year. The change in income is primarily due to the recognition of a $750,000 loss on the guarantee of the liabilities of Skyline Exploration Inc. this year as compared with the write-down and write-off of investments last year in the amount of $477,205.

This year the Company realized consolidated extraordinary income of $871,425 as the result of settling a loan guarantee for an amount less than recorded in the Company's books and realizing on assets previously written off. There were no extraordinary items last year. Consolidated income after extraordinary items for the reporting year was $62,500 as compared with a loss of $372,807 the previous year.

After providing for dividends on preference shares the consolidated loss per share was $0.25 before extraordinary items and $0.01 after extraordinary items for the reporting year as compared with a consolidated loss per share of $0.14 before and after extraordinary items the previous year.

SDS Drilling Group

During the year ending October 31, 1985, the Company's 50% share of SDS's revenues amounted to $3,672,356 which resulted in net income of $36,895 as compared with revenues of $3,668,227 and net income of $173,788 the previous year. Canadian profit margins continued to decline during the year but favourable international work offset the negative results from Canada leaving the consolidated results in a positive position.

The most significant aspect of SDS's current operations is its international exposure. In late summer of 1983 a joint venture in which SDS has an ultimate 50% interest commenced work on a water-well drilling contract in Nigeria. The initial contract, which had a gross value in excess of thirty million Canadian dollars is with the Sokoto Agricultural Development Project. This project is funded by a loan to the Sokoto State Government and the Federal Government of Nigeria by the World Bank. Payment of joint venture invoices for work performed under the contract comes directly from the Washington offices of the World Bank in Canadian currency. The initial contract required the drilling of 1,200 water wells along with the installation of hand pumps for the supply of potable water to the local people residing in small villages throughout the state.

The 1,200 water wells were completed by April 1985, a full 15 months ahead of schedule and the contract was extended by an additional 300 water wells. The additional work was completed by January 1986. The joint venture is currently negotiating with the Sokoto State Government and the World bank to extend the contract by a further 1,000 wells. Should this contract extension be granted, the project revenues are expected to increase by over twenty million Canadian dollars. As all of the Nigerian equipment has been written off against the first 1,500 wells, the profit margin on any new work should increase accordingly.

Another joint venture in which SDS has a 50% interest was awarded a project in Niger which is sponsored and funded by the Canadian Government. This project was scheduled to start in early 1985. Because of federal government financial constraints, the project is just currently getting underway and will make its contribution to earnings in 1986.

The management of SDS believes that the drilling of water wells in the international marketplace harbours the best potential for substantial future work for SDS. With

this thought in mind SDS is currently reviewing proposals from potential international partners and has submitted bids on several jobs similar to the one recently completed in Nigeria.

Oil & Gas Operations

During the year the Company, through its subsidiary Odyssey Exploration, Inc., ("Odyssey Inc.") concentrated all of its participating oil and gas activities in the State of Mississippi in a joint venture operated by Coho Resources Limited. All other oil and gas properties in which Odyssey Inc. has an interest have either been farmed out or are on hold pending development of better gas markets.

In March 1983 Odyssey Inc. purchased from Coho an interest in oil and gas leases on a 713-acre parcel of land within the city limits of Laurel, Mississippi. The purchase included one old well producing from the Rodessa formation at a depth of 12,000 feet. The land is underlaid by a salt dome located within a salt basin which has already produced over two billion barrels of oil. In November of 1983 Odyssey Inc. participated in the drilling of its first development well on the property, the Brit-Oil 1-11 No. 2, which was successfully completed in the Paluxy zone at 9,800 feet.

Following this successful development well Odyssey Inc. participated in a three-dimensional seismic survey of the property. The survey results were very exciting and indicated the potential for several millions of barrels of recoverable reserves on the property. During 1984 and 1985 four additional development wells were drilled on the property.

The four oil wells are the Mississippi Investments 1-11, No. 3 which was completed in the Eutaw Stanley sand at 6,700 feet, the Brit-Oil 1-3 which will be completed in a Paluxy sand at 9,800 feet, the Brit-Oil 1-7 which was completed in an Upper Tuscaloosa sand at 8,000 feet and the Mosbacher 1-16 which is being completed in the Rodessa formation at 12,000 feet.

The most significant of these oil discoveries is the 1-7 well which has indicated oil from logs and samples in over 20 zones. The well has been tested in one zone at rates in excess of 300 barrels of oil per day and is expected to be capable of producing on a sustained basis at rates in excess of 200 barrels of oil per day.

The most recent well drilled at Laurel is the Mosbacher 1-16 well which was a farmout well drilled by a third party to test and earn the zones below 12,500 feet. This well encountered over 250 feet of net oil pay in the Rodessa formation between 11,800 feet and 12,500 feet but was unproductive below 12,500 feet. Odyssey and its partners took over the well bore and cased the productive Rodessa sands which are expected to produce over 1,000,000 barrels of oil from this well bore. Once completed the well is expected to produce between 200 and 300 barrels of oil per day.

The Laurel property has the potential to produce over 30,000,000 barrels of oil during its productive life. However, because of the high cost of drilling directional holes within the restricted working area at Laurel and the recent low prices paid for crude oil, the partners in the Laurel project plan to defer any additional drilling until the U.S. oil prices have stabilized at a price which will yield an attractive return to the partners.

Odyssey Inc.'s ultimate working interest in the Laurel acreage is about 5%.

Coho Resources Limited

On a consolidated basis the Company is the largest shareholder of Coho Resources Limited which is a Calgary-based energy company engaged in acquiring, exploring for, developing and producing crude oil and natural gas primarily in Canada and the United States. The Company and its subsidiaries own 1,234,891 Class A common shares of Coho representing a 10.5% equity interest in Coho. The Company and its subsidiaries also own 317,194 ten-dollar par value preferred shares of Coho paying cumulative dividends at rates between 9% and 14% per annum.

Coho has just completed the most successful year of its history. During 1985 Coho added over 8,000,000 barrels of oil to its reserves at a finding cost of $1.82 per barrel. This is probably the best finding record of any company in Canada for the year. Coho's average daily oil production in 1985 increased to 918 barrels of oil per day, a 61% rise over comparable 1984 figures. By year end Coho's allowable productive capacity exceeded 2,000 barrels of oil per day. Coho's cash flow for the year was up 192 percent to $3,672,000 from $1,258,000 the previous year.

In early 1986 Coho completed its second and third successful oil wells on a salt dome in Mississippi containing stacked sands with over 150 feet of net pay per well bore. An engineering and geological study of this salt dome based on the new data was completed in early May. The study indicated 28 million barrels of recoverable oil in the proved and probable category before risking and 21 million barrels of recoverable oil after risking. It is estimated that these reserves can be developed for about eighty cents Canadian per barrel. The individual wells should reach payout in less than a year at oil prices of $10 U.S. per barrel. The wells are expected to have a 15 to 20 year life. This salt dome has the potential of

increasing Coho's reserves by about 7,000,000 barrels of oil and the reserves of Coho Australia Limited, a Coho affiliate company, by about 1,750,000 barrels of oil.

Management of this Company is confident that the faith it has in Coho's future will be rewarded by long term growth and appreciating value of its Coho shares.

Bank Negotiations

In March 1985 the Company settled a contingent liability relating to the Company's guarantee of the liabilities of Skyline Explorations Inc. to the Company's main bank. This settlement resulted in the Company recording a $750,000 loss. Later in the year the Company settled for a cash payment of $110,000 another claim relating to the Company's guarantee of the liabilities of N. Pedersen Transport Ltd. to another bank. The Company had set up a liability in 1983 on its books in the amount of $950,000 to cover this obligation. As the settlement amount was substantially less than the liability provided on the Company's books, an extraordinary gain in the amount of $840,000 was recorded for this transaction.

At the present time the Company is negotiating with its main banker to obtain extended repayment terms for the Company's income debentures. These negotiations will determine if the Company can maintain intact its present portfolio of long term investments. A forced premature realization on any of these long term investments would create a significant loss for the Company. Such a forced sale would also deprive the Company of the anticipated near term appreciation of the market value of these assets.

Conclusion

Notwithstanding the disheartening collapse of world oil prices, the Company is confident that Coho's dramatic 1985 achievements will be repeated in 1986 and beyond. Such results would ensure handsome profits for Coho even at today's depressed oil prices. SDS Drilling Ltd. is poised to obtain another multimillion dollar international drilling contract that could see its profits soar over the next 24 months. With hard work and determination we believe that the Company's present financial predicament can be overcome and that your Company will ultimately achieve the level of success required to yield an acceptable return on your investment.

K.H. Lambert
President
May 12, 1986

Auditors' Report

To the Shareholders of
Edmonton International Industries Ltd.:

We have examined the consolidated balance sheet of Edmonton International Industries Ltd. as at November 30, 1985 and the consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As more fully described in Note 4 to these consolidated financial statements, the company's investment in Class A common shares of Coho Resources Limited has a carrying value in excess of market value. Our review indicates that this loss, established with reference to market value, may be other than temporary. In such circumstances generally accepted accounting principles require that the investment be written down to recognize the loss, which, based on market value at November 30, 1985, would amount to $2,587,438. However, having regard to the size of the shareholding in Coho Resources Limited, which approximates 10% of the outstanding Class A common shares, and the limited trading volume of these shares, market value may not be a valid measurement of the carrying value of this long-term investment. If the investment had been written down to market value, investments and advances would have been reduced by $2,587,438, net income of $62,593 would have become a loss of $2,524,845 and retained earnings of $1,554,355 would have become a deficit of $1,033,083.

In our opinion, except that no write-down has been recorded on the company's investment in Class A common shares of Coho Resources Limited as described in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at November 30, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
April 28, 1986

Deloitte Haskins & Sells
Chartered Accountants

Edmonton International Industries Ltd.

Consolidated Statement of Income and Retained Earnings

Year Ended November 30, 1985

	1985	1984
INCOME		
Sale of products	**$ 500**	$ 4,000
Oil and gas sales	**40,594**	16,699
Drilling contracts	**3,672,356**	3,668,227
	3,713,450	3,688,926
EXPENSES		
Cost of sales	**2,687,224**	2,348,942
Selling, general and administrative	**708,733**	597,524
Depreciation and depletion	**326,081**	397,819
Interest on long-term debt	**523,646**	655,219
Other interest	**63,668**	60,545
	4,309,352	4,060,049
(LOSS) FROM OPERATIONS	**(595,902)**	(371,123)
OTHER INCOME (CHARGES)		
Dividends — Coho Resources Limited	**313,418**	308,731
Interest	**261,745**	124,157
Gain on sale of marketable securities	**54**	17,481
Loss on sale of equipment	**(14,815)**	(34,850)
Gain on sale of investments	**50,518**	7,117
(Loss) gain on foreign exchange transactions	**(9,274)**	32,628
Other	**8,908**	20,257
Write down and write off of investments and advances	**(760,984)**	(477,205)
	(150,430)	(1,684)
(LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	**(746,332)**	(372,807)
INCOME TAXES (Note 11)	**62,500**	—
(LOSS) BEFORE EXTRAORDINARY ITEMS	**(808,832)**	(372,807)
EXTRAORDINARY ITEMS (Note 12)	**871,425**	—
NET INCOME (LOSS)	**62,593**	(372,807)
RETAINED EARNINGS, BEGINNING OF YEAR	**1,581,762**	2,067,069
	1,644,355	1,694,262
DIVIDENDS ON PREFERRED SHARES (Note 8)	**90,000**	112,500
RETAINED EARNINGS, END OF YEAR	**$1,554,355**	$1,581,762
LOSS PER SHARE (Note 13)		

Edmonton International Industries Ltd.

Consolidated Balance Sheet

November 30, 1985

	1985	1984
ASSETS		
CURRENT ASSETS		
Cash	$ 236,603	$ 181,215
Marketable securities	—	857
Accounts receivable	1,051,546	1,037,014
Notes receivable	—	307,990
Inventories	657,132	679,231
Prepaid expenses	8,642	27,975
Due from affiliated companies	109,773	112,093
Current portion of investments and advances	266,000	—
	2,329,696	2,346,375
INVESTMENTS AND ADVANCES (Note 4)	10,939,172	9,125,812
OIL AND GAS PROPERTIES (Note 5)	885,267	747,759
MINING PROPERTIES	167,120	167,120
PROPERTY AND EQUIPMENT (Note 6)	1,213,276	1,452,233
OTHER ASSETS	25,423	42,853
	$15,559,954	$13,882,152
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 7)	$ 523,893	$ 1,538,241
Accounts payable and accrued charges	507,090	535,399
Income taxes	62,943	—
Due to affiliated companies and individuals	70,816	310,563
Due to joint venture associates	250,000	—
Current portion of long-term debt	2,194,969	1,534,088
	3,609,711	3,918,291
LONG-TERM DEBT (Note 8)	5,823,378	3,809,589
	9,433,089	7,727,880
CONTINGENCIES (Note 9)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 10)	4,572,510	4,572,510
RETAINED EARNINGS	1,554,355	1,581,762
	6,126,865	6,154,272
	$15,559,954	$13,882,152

Approved by the Board:

K.H. Lambert, Director

B.L. Lambert, Director

Edmonton International Industries Ltd.

Consolidated Statement of Changes in Financial Position

Year Ended November 30, 1985

	1985	1984
OPERATING ACTIVITIES		
Cash provided (used) by operations		
Loss before extraordinary items	**$ (808,832)**	$ (372,807)
Items not involving cash		
Accrued interest on dividends payable and 10% agreement payable	**31,481**	124,834
Depreciation and depletion	**326,081**	397,819
Dividends	**(313,418)**	(308,731)
Loss on sale of equipment	**14,815**	34,850
Gain on sale of investments	**(50,518)**	(7,117)
Interest earned on 10% note receivable	**(11,000)**	—
Write down and write off of investments and advances	**760,984**	477,205
	(50,407)	346,053
Net change in non-cash working capital balances related to operations	**382,954**	431,828
Cash provided by operating activities	**332,547**	777,881
INVESTING ACTIVITIES		
Extraordinary item — recovery of advances previously written off	**31,425**	—
Investments and advances	**(1,965,409)**	(23,170)
Increase in property and equipment	**(124,506)**	(54,858)
Increase in oil and gas properties	**(146,748)**	(96,644)
Decrease (increase) in other assets	**17,430**	(18,237)
Proceeds on sale of equipment	**31,808**	22,150
Proceeds on sale of investments	**250,000**	59,606
Settlement of loan guarantee relating to Skyline Exploration, Inc.	**(750,000)**	—
Cash (used by) investing activities	**(2,656,000)**	(111,153)
Cash (deficiency) before financing	**(2,323,453)**	666,728
FINANCING ACTIVITIES		
Increase in long-term debt	**1,917,503**	—
Increase in long-term debt as a result of restructuring bank indebtedness	**1,750,168**	—
Long-term debt repaid	**(1,114,482)**	(665,217)
Cash provided (used) by financing activities	**2,553,189**	(665,217)
INCREASE IN CASH	**229,736**	1,511
NET CASH, BEGINNING OF YEAR	**(407,026)**	(408,537)
NET CASH, END OF YEAR	**$ (177,290)**	$ (407,026)
NET CASH REPRESENTED BY		
Cash	**$ 236,603**	$ 181,215
Operating bank loans (see Note 7(a))	**413,893**	588,241
	$ (177,290)	$ (407,026)

The 1985 statement of changes in financial position focuses on changes in cash. The 1984 comparative figures, which were originally presented on a working capital basis, have been restated to conform to the 1985 presentation.

Edmonton International Industries Ltd.

Notes to Consolidated Financial Statements

November 30, 1985

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Speedway Properties Ltd. and Odyssey Resources Ltd., and its 50% pro rata share of assets, liabilities, income and expenses of SDS Drilling Ltd. (a corporate joint venture). The fiscal year end of SDS Drilling Ltd. is October 31 and accordingly the consolidated financial statements include the financial information of the corporate joint venture up to October 31, 1985. All significant inter-company transactions have been eliminated.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Investments and advances

All investments described in Note 4 are carried at cost. When it becomes apparent that a permanent decline in the value of these investments has occurred, the investments are written down to reflect such a decline.

Oil and gas properties

The Company follows the full-cost method of accounting for its oil and gas properties. All costs related to the exploration for and development of petroleum and natural gas are capitalized. These costs include lease acquisitions, geological and geophysical costs, lease rentals on undeveloped properties, drilling of productive and non-productive wells, and all technical and administrative overhead directly related to exploration and development activities.

Costs are accumulated on a country-by-country basis and are amortized by the unit-of-production method based on estimated petroleum and natural gas reserves in each country, as determined by the company's and independent engineers. No gains or losses are recognized upon the sale or disposition of petroleum and natural gas properties held for exploration and development except for transactions which result in major disposals of petroleum and natural gas reserves.

The company's operations are carried out through joint ventures and, accordingly, these financial statements reflect only the company's proportionate interest in such activities.

Mining properties

All costs related to mining properties are accumulated until such time as commercially recoverable ore reserves are proved and production commences, at which time these costs will be amortized using the unit-of-production method. The accumulated costs pertaining to mining properties are charged against income if the property is abandoned.

Property and equipment

Property and equipment is stated at cost. The building and equipment are depreciated on the straight-line and diminishing-balance methods at rates stated in Note 6.

Income recognition

The corporate joint venture (SDS Drilling Ltd.) follows the percentage-of-completion method of recognizing income from specific projects.

Translation of foreign currencies

Foreign currency accounts in these financial statements are translated into Canadian dollars on the following basis:

(a) All monetary assets and liabilities — at the rate of exchange prevailing at the year end.

(b) All other assets (and related depreciation and amortization) and liabilities — at the rates of exchange prevailing when the assets were acquired or the liabilities assumed.

(c) Revenue and expenses (other than depreciation and amortization) — at the average exchange rate for the year.

(d) Gains and losses on translation of foreign currencies are included in income.

2. CONTINUATION OF BUSINESS

(a) During the year, the company, Eltel Holdings Ltd. and its subsidiary company entered into an agreement with its chief banker which restructured the various companies bank indebtedness. The ability of the company to continue operations over the term of this agreement is dependent upon the company meeting all the terms and conditions of the agreement during the life of the agreement or subsequent amendments thereto.

(b) Also, approximately 57% of the company's total assets at November 30, 1985, were invested in Coho Resources Limited (Coho), a public company, whose principal business is the exploration and development for oil and gas. Because of the current depressed market value of the Class A common shares of Coho and the uncertainty surrounding the international market and price of crude oil, the company's significant investment in Coho is at risk.

The ability of the company to continue as a going concern depends to a large extent on its ability to comply with the terms of its bank loan agreement and on the improvement in the factors that determine the value of its investment in Coho.

3. JOINT VENTURE OPERATIONS

The following is a summary of the company's share of the operations of SDS Drilling Ltd.:

	1985	1984
Revenue from operations	**$3,672,356**	$3,668,227
Expenses	**3,620,396**	3,454,589
(Loss) on sale of equipment	**(15,065)**	(39,850)
Net income	**36,895**	173,788
Total assets	**2,901,121**	3,317,419
Total liabilities	**2,253,707**	2,496,439

4. INVESTMENTS AND ADVANCES

	1985	1984
Related companies		
Coho Australia Limited (a public company)		
157,000 common shares (quoted market value $25,120; 1984 — $18,055)	**$ 23,550**	$ 23,550
Coho Resources Limited (a public company)		
1,144,749 (1984 — 746,193) Class A common shares (quoted market value $2,861,872; 1984 — $1,492,386)	**5,449,310**	3,617,240
Nil (1984 — 329,542) Class B convertible common shares	**—**	1,718,135
186,931 9% cumulative redeemable convertible $10 par value first preference shares, Series A, redeemable at par	**1,974,725**	1,974,725
6,876 9% cumulative redeemable $10 par value first preference shares, Series B, redeemable at par	**68,760**	68,760
67,500 9% cumulative redeemable convertible $10 par value first preference shares, Series C, redeemable at par	**675,000**	675,000
55,887 14% cumulative redeemable convertible $10 par value second preference shares, Series A, redeemable at par	**498,311**	498,311
A warrant to purchase 18,290 Class A common shares	**—**	1
Dividends receivable	**228,581**	228,581
SDS Drilling Ltd. (a corporate joint venture)		
Secured debentures, Series B, bearing interest at prime plus 2%, due September 7, 1987	**230,000**	230,000
Subordinated debentures, bearing interest at prime, due August 22, 1987	**91,455**	91,455
325807 Alberta Ltd.		
10% note receivable with no specific terms of repayment (including accrued interest of $11,000)	**1,293,426**	—
	10,533,118	9,125,758

An-Dee Drilling Inc.		
Notes receivable secured by an assignment of an interest in certain oil and gas properties and seismic data, bearing interest at bank prime rate plus 2%, and repayable in monthly instalments calculated at the greater of $14,000 or the amount received by An-Dee in respect of net revenue on the secured assets less the amount of any interest payable on this note	**672,000**	—
Other	**54**	54
	11,205,172	9,125,812
Amount in arrears	**98,000**	—
Amount due in one year	**168,000**	—
	$10,939,172	$9,125,812

All the Class B convertible common shares of Coho Resources Limited were deemed to have been automatically converted to Class A common shares on the first business day following the fifth Annual General Meeting of the shareholders of Coho Resources Limited, which was held on June 11, 1985.

The dividends receivable from Coho Resources Limited on the first preference shares were paid on December 31, 1985 by Coho issuing Class A common shares to the Company at an issue price equal to 98% of the weighted average trading price of the Class A shares on the Toronto Stock Exchange for the twenty days immediately preceding December 31, 1985.

Class A common shares of Coho Resources Limited are listed on the Toronto and Alberta Stock Exchanges. At November 30, 1985, the company's holding of Class A common shares had a market value of $2,861,872 at $2.50 per share which is less than the above noted carrying value of $4.76 per share by an aggregate amount of $2,587,438. Subsequent to November 30, 1985 there were further significant reductions in the quoted market value of the company's investment in Coho Resources Limited Class A common shares. As at April 28, 1986 the quoted market value of the investment amounted to $1,373,698.

Management is of the opinion that, although the shortfall below market is substantial and has been in place since 1983, there has been no permanent impairment in the value of this investment. Management's opinion is supported by a recently completed internal valuation of Coho which establishes a net asset value per share of $6.27 at December 31, 1985. This valuation is based on current estimates of future pricing for oil and gas reserves, being U.S. $10 in 1986, U.S. $15 in 1987, U.S. $20 in 1988 and escalated by 5% per annum thereafter. Oil and gas reserves are largely determined by independent engineers and the net present values of future revenues are computed using a discount rate of 15%.

5. OIL AND GAS PROPERTIES

	1985			1984
	Cost	Accumulated Depletion	Net Book Value	Net Book Value
Oil and gas properties	$894,507	$9,240	$885,267	$747,759

Excluded from the cost pool subject to depreciation and depletion are land acquisition and exploration costs totalling $607,509, incurred in respect of petroleum and natural gas properties for which a reserve evaluation has still to be completed. Ultimate recovery of this amount is dependent on the company identifying reserves in commercial quantities or by profitable disposition of the properties. In the event that sufficient reserves are not established, the excess of the carrying value over economic value will be charged to earnings in the year the impairment is identified.

6. PROPERTY AND EQUIPMENT

	1985			1984	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Building	$ 120,486	$ 41,106	$ 79,380	$ 85,519	5% straight-line
Drilling rigs	1,327,767	564,474	763,293	944,264	7-10% straight-line
Drill stem	133,371	71,400	61,971	85,195	35% diminishing balance
Automotive equipment	197,288	63,978	133,310	168,885	20% straight-line

	1985			1984	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Field equipment	215,124	75,246	139,878	130,834	20% straight-line
Office and shop	27,892	12,424	15,468	17,560	10% straight-line
	2,021,928	828,628	1,193,300	1,432,257	
Land	19,976	—	19,976	19,976	
	$2,041,904	$ 828,628	$1,213,276	$1,452,233	

Depreciation provided for the current year totalled $316,841 (1984 — $397,819).

7. BANK INDEBTEDNESS

	1985	1984
(a) Operating Loans	**$413,893**	$ 588,241
(b) Contingent loan guarantee recognized for accounting purposes	**110,000**	950,000
	$523,893	$1,538,241

(a) This bank indebtedness is secured by a general assignment of accounts receivable and a first fixed floating charge on the assets of the corporate joint venture.

(b) The Company has guaranteed 50% of the loans made by the bank to N. Pedersen Transport Ltd. which was placed into receivership during 1982. At November 30, 1983 management had estimated that $950,000 would be the most likely loss. In November 1984 the company was issued with the bank's statement of claim for 50% of the balance outstanding and subsequent to this the company filed a statement of defence and counterclaimed for the set-off of the amount owing. Subsequent to the year end, the company paid $110,000 to the bank in full settlement of the contingent loan guarantee resulting in an extraordinary gain of $840,000 (see Note 12).

8. LONG-TERM DEBT

	1985	1984
Income debentures payable to bank, due September 30, 1989, with interest at one-half of prime plus 1% payable only to the extent of available profits, repayable in quarterly instalments of $210,000 plus interest, secured by a general assignment of accounts receivable and hypothecation of specific securities of Coho Resources Limited (see Notes 2(a) and 9(b))	**$3,608,395**	$ —
Bank loans		
Non-interest bearing, due February 28, 1989, secured under the same terms as the income debentures, convertible at the option of the bank into common shares of the company at $1.50 per share (see Note 2(a))	**500,000**	—
At prime plus ¾%, converted to an income debenture during the year	—	1,462,627
At prime plus 1%, due February 28, 1986 (see Note 9(a))	**400,000**	400,000
At prime plus 1%, due January 31, 1987	—	250,000
At prime plus 1¼%, due in 1989, secured by first fixed and floating charges on all assets of the corporate joint venture, repayable in quarterly instalments of $25,000, escalating to $50,000 in April 1986, and $100,000 in October 1986	**566,318**	825,409
At prime plus 1½%, due in 1987, secured by an assignment of specific investments, promissory notes and letter of guarantee, payable in quarterly instalments of $83,333	**583,334**	916,667
10% agreement payable on purchase of business, converted to an income debenture during the year		
Principal	—	900,000
Accrued interest	—	239,811
Debentures due December 31, 1986, bearing interest at prime bank rate plus 2% and secured by a fixed and floating charge on all the assets of Odyssey Resources Ltd., including the assignment of the interest of An-Dee Drilling Inc. in certain oil and gas properties and the assignment from An-Dee Drilling Ltd. of all the issued and outstanding shares of An-Dee Drilling Inc.	**1,517,503**	—
Loan due December 31, 1986, bearing interest at bank prime rate plus 2% and secured by an assignment of specific securities of Coho Resources Limited	**400,000**	—

	1985	1984
Finance contracts and other debt due at various dates with various interest rates, secured by specific equipment	**16,293**	44,140
Dividends payable on preferred shares and accrued interest on dividends	**426,504**	305,023
	8,018,347	5,343,677
Less		
Amounts in arrears	**386,000**	—
Amount due in one year	**1,808,969**	1,534,088
	$5,823,378	$3,809,589

Principal amounts due in each of the next four years are as follows:

1986	$2,195,000
1987	3,350,000
1988	840,000
1989	1,629,000

As a result of the bank indebtedness restructuring agreement dividends on preferred shares of the company may be accrued but not paid to the shareholders until the bank indebtedness of the company has been retired.

The debentures due December 31, 1986 were issued pursuant to a private placement memorandum dated February 28, 1985. Under the private placement memorandum, subscriptions of $1,175,000 and U.S. $247,000 were received from 47 Canadian dollar units and 37 U.S. dollar units. Each unit comprises:

— one $25,000 (U.S. $19,000) secured debenture maturing December 31, 1986, bearing interest at bank prime rate plus 2%,

— the option to purchase 5,000 common shares of Edmonton International Industries Ltd. at a price of $1.00 per share on or before February 28, 1986,

— the option to purchase 1,000 Class A common shares of Coho Resources Limited at $5.00 per share on or before February 28, 1986,

— two options to purchase interests in oil and gas properties.

As of April 28, 1986 the options expiring February 28, 1986 had not been exercised.

9. CONTINGENCIES

(a) During 1982, the company was called upon by the bank to jointly and severally borrow from the bank a $1,200,000 loan to retire in Reynolds Exploration Ltd. a loan in the amount of $1,082,332 plus accrued interest in exchange for security in the remaining revenue of Reynolds Exploration Ltd. The company recorded its share of the $1,200,000 loan as at November 30, 1982 in the amount of $400,000. During 1985 the loan balance was reduced to $493,679 through the receipt of revenues owned by Reynolds Exploration Ltd. If the other two parties forming part of the joint and several guarantee cannot meet their obligations, or the remaining future receipts of Reynolds Exploration Ltd. are insufficient to extinguish the debt, then the company would be liable for the remaining $93,679 amount. If the remaining future receipts of Reynolds Exploration Ltd. are sufficient to extinguish the debt, then the company would have a credit to income in the amount of $400,000.

(b) Interest on the income debentures payable to bank is only payable to the extent of available profits as calculated under the terms of the debentures. If in any future year the available profit exceeds the interest charges on the debentures for that year, the excess must first be applied to repay any accumulated but unpaid interest of prior years. As at November 30, 1985, the company was contingently liable to pay $135,000 in accumulated but unpaid interest out of future years' profits.

(c) The company has provided letters of guarantee denominated in Nigerian currency in the amount of approximately $183,750 relating to its participation in the Nigerian joint venture.

(d) Subsequent to the year end, the company provided letters of guarantee to Canadian International Development Agency denominated both in Canadian dollars and the currency of the Republic of Niger aggregating approximately $54,000 relating to the company's future participation in a joint venture project in Niger.

10. SHARE CAPITAL

		1985	1984
Authorized			
Unlimited number of cumulative redeemable convertible preferred shares, redeemable at their stated value			
16,500,000	Class B non-participating voting shares		
Unlimited number of common shares			
Issued			
250,000	preferred shares	**$1,000,000**	$1,000,000
11,000,000	Class B shares	**110,000**	110,000
3,525,000	common shares	**3,462,510**	3,462,510
		$4,572,510	$4,572,510

The dividend rate on the preferred shares is based on 9% of their stated value.

During the year ended November 30, 1985, the company was granted continuance under the Alberta Business Corporations Act. Under the Act, shares cannot have a par value. Accordingly, shares previously with a par value are now designated as without par value.

11. INCOME TAXES

Taxes on income includes a provision of $62,500 payable to the Federal Republic of Nigeria in respect of the company's participation in the Nigerian joint venture. This amount, when paid to the Nigerian tax authorities, will be available to reduce future income taxes payable in Canada.

No recognition has been made in the accounts for possible tax reductions in future years from tax losses carried forward in the amount of approximately $3,928,000. These losses expire as follows:

1986	$680,000
1987	936,000
1988	144,000
1990	515,000
1991	718,000
1992	935,000

12. EXTRAORDINARY ITEMS

Settlement of loan guarantee relating to N. Pedersen Transport Ltd. (see Note 7(b))	$840,000
Recovery of advances previously written off	31,425
	$871,425

13. LOSS PER SHARE

The basic loss per share is based on the weighted monthly average of shares presently outstanding and after deducting the dividend requirement on the preferred shares.

The fully diluted earnings per share are based on the weighted monthly average of shares outstanding which includes the assumed conversion of the preferred shares and before deducting the dividend requirement on the preferred shares.

	Basic		Fully Diluted
	1985	1984	**1985** and 1984
Before extraordinary items	**$.25**	$.14	Not applicable
After extraordinary items	**$.01**	$.14	Not applicable

14. RELATED PARTY TRANSACTIONS

Edmonton International Industries Ltd. is related to other companies by virtue of common shareholder control and its ability to exert significant influence over other companies. Transactions with related parties were as follows:

	1985	1984
Interest earned	$157,629	$ 68,131
Interest on long-term debt	27,140	112,311
Management fee expense	77,500	40,000

15. GEOGRAPHIC SEGMENTS

The company operates in different geographic areas. Operations in Nigeria relate solely to drilling contracts.

	Canada	Nigeria	Consolidated
Income	$2,325,399	$1,388,051	$ 3,713,450
Cost of sales	1,755,688	931,536	2,687,224
Selling, general, administrative and other expenses	1,406,986	215,142	1,622,128
Segmented operating (loss) income	$ (837,275)	$ 241,373	(595,902)
Corporate income (including extra-ordinary items)			658,495
Net income			$ 62,593
Identifiable assets	$3,732,391	$ 622,391	$ 4,354,782
Corporate assets			11,205,172
Total assets			$15,559,954

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